

ORIGINAL
OPEN MEETING



0000118610

MEMORANDUM RECEIVED

TO: THE COMMISSION ^{Arizona Corporation Commission} DOCKETED 2010 OCT -5 P 3: 34

FROM: Utilities Division OCT 5 2010

DATE: October 5, 2010

RE: YAVAPAI MOBILE HOME ESTATES' (WILHOIT WATER COMPANY) APPLICATION FOR APPROVAL OF A PERMANENT RATE INCREASE AND FINANCING FOR A NEW ARSENIC TREATMENT SYSTEM (DOCKET NOS. W-02065A-07-0308, W-02065A-07-0309, W-02065A-07-0311, AND W-02065A-09-0123)

Introduction

On August 6, 2010, pursuant to Decision No. 71235, Wilhoit Water Company ("Wilhoit" or "Company") filed with the Arizona Corporation Commission ("Commission") documentation from the Water Infrastructure Finance Authority ("WIFA") to fulfill the compliance requirements set forth in that Decision as prerequisites for implementation of an Arsenic Remediation Surcharge Mechanism ("ARSM").

Decision No. 71235 ordered the Company to file within 60 days of loan closing copies of executed loan documents. The Decision also directed Staff to calculate the actual surcharge rates and file the appropriate surcharge amount to be collected from customers according to their meter size within 30 days of the Company's filing. Pursuant to Decision No. 71235, Wilhoit filed the required loan documents prior to the implementation of the ARSM

Background

On June 13, 2008, the Commission approved a permanent rate increase (Decision No. 70384) authorizing Wilhoit to recover \$36,105 which it had expended for the installation of an arsenic remediation system by means of an Arsenic Cost Recovery Mechanism ("ACRM"). Subsequently, the arsenic remediation system installed by the Company failed, and it became necessary for the Company to replace the ineffective system with a more expensive system.

On March 17, 2009, the Company filed a financing application seeking approval to borrow \$280,042 from WIFA to fund a new remediation system, which was to be repaid utilizing an ARSM in lieu of the previously-approved ACRM. In Decision No. 71235, dated August 6, 2009, the Commission authorized the Company's requests to issue debt to finance a new remediation system and to replace the ACRM with an ARSM.

On March 8, 2010, WIFA approved a \$280,042 loan to Wilhoit Water Company – Yavapai Estates, a twenty-year loan bearing a one percent combined interest and fee rate. A copy of the executed loan documents was docketed with the Commission on August 6, 2010.

Calculation of Arsenic Remediation Surcharge

Decision No. 71235 ordered that, upon the Company's filing of the appropriate WIFA loan documentation, Staff shall calculate the actual arsenic remediation surcharge and file the appropriate surcharge amount to be collected from the Company's customers according to their meter size. The Company has filed the required loan documentation, and Staff has calculated the arsenic remediation surcharge necessary to recover the debt service cost. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate arsenic remediation surcharge based on meter size in accordance with the method authorized in Decision No. 71235. The authorized ARSM provides for recovery of the arsenic remediation revenue requirement as a fixed monthly charge.

The WIFA loan documentation shows that the annual debt service on the \$280,042 loan at 1.0 percent per annum is \$15,813 (\$13,072 principal and \$2,741 interest). An ARSM provides for recovery of incremental income taxes on the surcharge. Since interest expense is tax deductible, an income tax provision is required only for the principal portion of the debt service. The incremental income tax is \$4,184 resulting in a \$19,997 (\$15,813 + \$4,184) total annual arsenic surcharge revenue requirement.

Staff's calculation of the arsenic remediation surcharge is shown in Schedule GTM-1. The surcharge for a customer with a 5/8 x 3/4-inch meter is \$13.23.

The Staff-calculated arsenic remediation surcharges by meter size are presented below.

MONTHLY ARSENIC REMEDIATION SURCHARGE

5/8 x 3/4-inch meter	\$ 13.23
3/4-inch meter	\$ 19.85
1-inch meter	\$ 33.08
1 1/2-inch meter	\$ 66.15
2-inch meter	\$105.84
3-inch meter	\$211.68
4-inch meter	\$330.75
6-inch meter	\$661.50

Staff Conclusions and Recommendations

Staff concludes that the Company has filed the required loan documentation pursuant to Decision No. 71235.

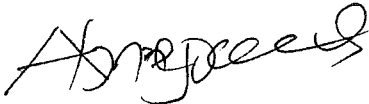
Staff recommends approval of the arsenic remediation surcharges presented in GTM-1.

Staff recommends that the Company file, within 7 days of a Decision in this matter, an arsenic remediation surcharge tariff consistent with the rates reflected in Schedule GTM-1.

Staff recommends that the Company notify its customers of the arsenic remediation surcharge tariff approved herein within 30 days from the effective date of the Decision.

Staff recommends that the arsenic remediation surcharges authorized herein become effective for billings rendered after October 31, 2010.

Staff recommends authorizing collection of the surcharges authorized herein until the Commission establishes new rates.



for

Steven M. Olea
Director
Utilities Division

SMO:GTM:lhmvAV

ORIGINATOR: Gary T. McMurry

CALCULATION OF SURCHARGE AMOUNT

Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism

1	Loan Amount	\$ 280,042
2		
3	Total Yearly Interest and Principal Payments Based on a	
4	19.5-year WIFA Loan and a 1.0 percent interest rate.	\$ 15,813
5		
6	Annual Income Tax Component of the Surcharge Revenue	\$ 4,184
7		
8	Total Annual Surcharge Revenue Requirement for the Loan	\$19,997
9		
10	Total Equivalent Annual Bills (126 customers X 12)	1,512
11		
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15		
16	5/8 x 3/4-Inch Meter Surcharge Amount	\$ 13.23
17		
18	3/4-Inch Meter Surcharge Amount	\$ 19.85
19		
20	1-Inch Meter Surcharge Amount	\$ 33.08
21		
22	1 1/2-Inch Meter Surcharge Amount	\$ 66.15
23		
24	2-Inch Meter Surcharge Amount	\$ 105.84
25		
26	3-Inch Meter Surcharge Amount	\$ 211.68
27		
28	4-Inch Meter Surcharge Amount	\$ 330.75
29		
30	6-Inch Meter Surcharge Amount	\$ 661.50

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8 x 3/4 " Meter	93	1	93	1,116	13.23	159	14,765
3/4" Meter	-	1.5	0	-	19.85	-	-
1" Meter	-	2.5	0	-	33.08	-	-
1 1/2" Meter	-	5	0	-	66.15	-	-
2" Meter	1	8	8	96	105.84	1,270	1,270
3" Meter	-	16	0	-	211.68	-	-
4" Meter	1	25	25	300	330.75	3,969	3,969
6" Meter	-	50	0	-	661.50	-	-
Total	95		126				20,004

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION
OF WILHOIT WATER COMPANY
(YAVAPAI MOBILE HOME ESTATES),
FOR APPROVAL OF FINANCING FOR A
NEW ARSENIC TREATMENT SYSTEM

DOCKET NOS. W-02065A-07-0308
W-02065A-07-0309
W-02065A-07-0311
W-02065A-09-0123

DECISION NO. _____
ORDER

Open Meeting
October 19 and 20, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On August 6, 2010, pursuant to Decision No. 71235, Wilhoit Water Company (Yavapai Mobile Home Estates) ("Wilhoit" or "Company") filed with the Arizona Corporation Commission ("Commission") documentation from the Water Infrastructure Finance Authority ("WIFA") to fulfill the compliance requirements set forth in that Decision as prerequisites for implementation of an Arsenic Remediation Surcharge Mechanism ("ARSM").

2. Decision No. 71235 ordered the Company to file within 60 days of loan closing copies of executed loan documents. The Decision also directed Staff to calculate the actual surcharge rates and file the appropriate surcharge amount to be collected from customers according to their meter size within 30 days of the Company's filing.

...

3. Pursuant to Decision No. 71235, Wilhoit filed the required loan documents prior to the implementation of the ARSM.

Background

4. On June 13, 2008, the Commission approved a permanent rate increase (Decision No. 70384) authorizing Wilhoit to recover \$36,105, which it had expended for the installation of an arsenic remediation system by means of an Arsenic Cost Recovery Mechanism("ACRM").

5. Subsequently, the arsenic remediation system installed by the Company failed, and it became necessary for the Company to replace the ineffective system with a more expensive system.

6. On March 17, 2009, the Company filed a financing application seeking approval to borrow \$280,042 from WIFA to fund a new remediation system, which was to be repaid utilizing an ARSM in lieu of the previously-approved ACRM.

7. In Decision No. 71235, dated August 6, 2009, the Commission authorized the Company's requests to issue debt to finance a new remediation system and to replace the ACRM with an ARSM.

8. On March 8, 2010, WIFA approved a \$280,042 loan to Wilhoit Water Company – Yavapai Estates, a twenty-year loan bearing a one percent combined interest and fee rate. A copy of the executed loan documents was docketed with the Commission on August 6, 2010.

ARSM Surcharge Calculation

9. Decision No. 71235 ordered that, upon the Company's filing of the appropriate WIFA loan documentation, Staff shall calculate the actual arsenic remediation surcharge and file the appropriate surcharge amount to be collected from the Company's customers according to their meter size.

10. The Company has filed the required loan documentation, and Staff has calculated the arsenic remediation surcharge necessary to recover the debt service cost.

11. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate arsenic remediation surcharge based on meter size in accordance with the method authorized in Decision No. 71235.

12. The authorized ARSM provides for recovery of the arsenic remediation revenue requirement as a fixed monthly charge.

13. The WIFA loan documentation shows that the annual debt service on the \$280,042 loan at 1.0 percent per annum is \$15,813 (\$13,072 principal and \$2,741 interest).

14. An ARSM provides for recovery of incremental income taxes on the surcharge.

15. Since interest expense is tax deductible, an income tax provision is required only for the principal portion of the debt service.

16. The incremental income tax is \$4,184 resulting in a \$19,997 (\$15,813 + \$4,184) total annual arsenic surcharge revenue requirement.

17. Staff's calculation of the arsenic remediation surcharge is shown in Schedule GTM-1. The surcharge for a customer with a 5/8 x 3/4-inch meter is \$13.23.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Approval of the proposed arsenic surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the ARSM as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Wilhoit Water Company (Yavapai Mobile Home Estates) for the implementation of an ARSM surcharge is approved for all customer billings subsequent to October 31, 2010, as discussed herein.

IT IS FURTHER ORDERED that the ARSM surcharge for Wilhoit Water Company (Yavapai Mobile Home Estates) shall be in accordance with the rates as shown in the attached ACRM Schedule GTM-1.

...

IT IS FURTHER ORDERED that Wilhoit Water Company (Yavapai Mobile Home Estates) docket with the Commission an ARSM tariff consistent with the rates reflected in Schedule GTM-1 within 7 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Wilhoit Water Company (Yavapai Mobile Home Estates) shall notify its customers of the arsenic remediation surcharge approved herein within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that the collection of the surcharges is authorized until the Commission establishes new rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:GTM:lhmvAV

Decision No. _____

1 SERVICE LIST FOR: Wilhoit Water Company (Yavapai Mobile Estates)
2 DOCKET NOS. W-02065A-07-0308; W-02065A-07-0309; W-02065A-07-0311; W-01303A-09-
3 0123

4 Mr. Jim West
5 Douglas G. Martin
6 Martin & Bell, LLC
7 365 East Coronado Road, Suite 200
8 Phoenix, Arizona 85007

9 Mr. Steven M. Olea
10 Director, Utilities Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Ms. Janice M. Alward
15 Chief Counsel, Legal Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

Wilhoit Water Company (Yavapai Estates)
Docket No. W-02065A-07-0309
Application For Financing

Schedule GTM-1

CALCULATION OF SURCHARGE AMOUNT

Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism

1	Loan Amount	\$ 280,042
2		
3	Total Yearly Interest and Principal Payments Based on a	
4	19.5-year WIFA Loan and a 1.0 percent interest rate.	\$ 15,813
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